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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Decreases In Soviet Meat Output
Leads To Purchases From Free World Suppliers*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
10 March 1970

INTELLIGENCE MEMORANDUM

Decrease In Soviet Meat Output
Leads To Purchases
From Free World Suppliers

Introduction

Recent Soviet overtures for the purchase of sizable quantities of meat from the Free World and an increased frequency of reported shortages of retail supplies of meat have focused attention on current problems in meeting consumer demand for meat. Following impressive increases in per capita availabilities of meat in 1965-67, consumption leveled off in 1968 and declined in 1969. Moreover, the continued rise in personal money incomes in the last two years has added to the already existing and substantial unsatisfied demand for meat. The purposes of this memorandum are (1) to examine recent developments affecting the domestic supply and consumption of meat in 1969 and the first half of 1970 and (2) to summarize the evidence concerning the purchase of meat from abroad.

Production in 1969

1. After four years of consecutive increases, production of meat is estimated to have declined in 1969. During 1965-67 the rate of growth in domestic output averaged 11½% per year. This rapid rate of advance was followed by a leveling off in

*Note: This memorandum was produced solely by CIA.
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output in 1968 and a drop of 3% to 5% in 1969, as indicated in the following tabulation:

<u>Year</u>	<u>Meat Output a/ (Million Metric Tons)</u>	<u>Annual Rate of Growth (Percent)</u>
1965	8.8	21
1966	9.5	8
1967	10.1	6½
1968	10.2	1
1969	9.7 to 9.9	-3 to -5

a. Estimated. Official figures for the production of meat are not accepted because of evidence of a large and varying exaggeration (see the Appendix).

2. The decrease in meat production in 1969 reflected the convergence of several developments that either directly or indirectly affected output of all livestock products:

(1) At the beginning of the year, there was a 1½% decline in the carryover of inventories of livestock from 1968, compared with the corresponding date a year earlier. A small boost in numbers of sheep and goats was more than offset by decreases in cattle and hogs. The inventory of 49 million hogs was some 10½ million head below the level at the end of 1965.

(2) Severe winter weather during the first quarter of 1969 brought about an abnormally high rate of mortality among livestock, especially sheep. It has been estimated elsewhere that losses of sheep (12½ million) resulted in the forfeiting of 200,000 tons of meat, an amount equivalent to 2% of total meat output in 1968.*

(3) A small absolute reduction in the availability of feed per animal also contributed to the reduced output of meat. Much of the rapid

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growth in output of meat and other livestock products during 1965-67 was attributable to an average boost of one-fifth in the total supply of feed (in terms of feed units) and an increase of more than 10% in available feed units per animal.

(4) There were several indications that the incidence of livestock diseases in 1969 had a relatively greater adverse effect on output of meat and other livestock products than in any year since 1966. Specifically, the incidence of foot-and-mouth disease among cattle and sheep and of Marek's disease (a form of avian leukosis) among poultry may have accelerated.

Unsatisfied Demand for Meat

3. The downturn in domestic output, coupled with the unwillingness of the government to authorize larger imports, led to a decline of 4% in per capita consumption of meat in 1969. Hence, the regime has not sustained the considerable progress in meat consumption made during the first four years of the post-Khrushchev era. By 1968 per capita meat consumption had increased to about 38 kilograms per year -- about one-fourth above the depressed level of 1964, the year of Khrushchev's political demise.*

4. The decline in 1969 came at the very time when Soviet consumers held high expectations that there would be a continued substitution of quality foods -- especially livestock products -- for a substantial part of the traditional starchy staples (bread and potatoes). The failure to increase supplies of meat must be even more evident to the consumer as the continued rise in personal money incomes in 1969 and in 1970 adds to the existing unsatisfied demand for meat. Evidence of the population's unsatisfied demand is manifested in (1) lengthening queues in state stores, where retail prices are fixed, and rising prices in the

* In May 1957, at the time of Khrushchev's struggle with the "anti-Party group," he launched a campaign to catch up to the United States in per capita production of milk and meat in a "few years." In 1964, the year of Khrushchev's ouster, per capita meat consumption in the USSR was only 6% above that in 1957 and, instead of progressing toward the goal of "catching-up," the Soviet consumer had slipped from approximately 37% of the US level in 1958 to 34%.

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collective farm market (CFM), where prices rise and fall according to demand and supply, and (2) an increase in the frequency of reports of complete absence of supplies of meat in selected urban centers.

5. The data on price movements for Moscow CFM's suggest a strong upward trend in meat prices in 1969 and in January 1970. Compared with the corresponding periods a year earlier, Moscow CFM meat prices stood 6½% higher in the first half of 1969 and 9½% higher in the second half. The price increase from January 1969 to January 1970 was 16%.

6. Beginning in mid-1969 there was an increase in the volume of reports concerning prolonged local shortages and even absences of meat in several provincial centers. The boost in Moscow collective farm market prices in January 1970 was accompanied by a further decline in state-store supplies. Moreover, mid-January travelers to such diverse provincial centers as Yaroslavl (Northern European Russia) and Ashkabad (Central Asia) report little or no meat available. Somewhat surprisingly, along with the spate of reports concerning severe meat shortages, there has been an almost complete absence of rumors (and no eyewitness accounts) of riots or demonstrations. On the other hand, a Soviet resident of Krasnodar in the North Caucasus stated in mid-1969 that "the mood of the population [is] very bad and ... outbreaks of violence would not be surprising."

Outlook for Meat Production in 1970

7. Unless the regime has already authorized release of a considerable quantity of grain reserves for feeding livestock, the outlook for a marked increase in meat production in the first half of 1970 is dim. The number of animals to be fed is approximately the same in early 1970 as a year earlier, and the carryover in total feed supplies is only slightly larger. The somewhat greater quantity of feed grain available from the 1969 crop is mostly offset by lower supplies of other concentrates such as oilseed cake and of succulent feeds such as potatoes and silage. Moreover, if recently announced policies are followed, the number of livestock will be expanded in 1970 at the expense of shortrun gains in meat output. In summary, if current stocks of feed grain are not augmented, the change in output in the first half of 1970 is not

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expected to be more than plus or minus 2% or 3%, compared with the corresponding period of 1969.* Indeed, production of meat has gotten off to an inauspicious start in 1970. Output of industrially processed meat in January was 2% below the depressed level for the same month in 1969 and 9% below the output registered in January 1968.**

8. In looking beyond the first half of 1970, the critical factor in judging the outlook for meat production will be the production of crops in 1970, which will be largely determined by weather conditions. For example, Soviet capabilities for increasing numbers and productivity of cattle and sheep from mid-1970 to mid-1971 will depend primarily upon the availability of summer pasture and of roughages which can be stored for use in the winter holdover period. An increase in numbers and productivity of hogs is contingent upon the availabilities of feed grains and other concentrates from the 1970 crop -- a matter largely dependent on growing and harvesting conditions in the coming crop season.

Consumer Demand for Meat in 1970

9. Present indicators all point to a further boost in the demand for meat in 1970. Developments contributing to added demand include (1) a 1% increment to the country's population; (2) a further large boost in money incomes of 6%, or about ten billion rubles; and (3) a huge backlog of personal savings, which at the beginning of 1970 were at an alltime high. Savings have skyrocketed in recent

* Of course, the lack of any public disclosure to date concerning the release of stocks does not preclude the possibility that such a course of action has been put into effect. In November, several in the leadership indicated that "special measures" (undesigned) had been adopted to aid the livestock sector in overcoming "current difficulties." And in mid-January Izvestiya indicated that "serious measures" with respect to animal husbandry had been taken at the December 1969 Plenum. Finally, a Pravda editorial of 11 February indicated that "additional ... large quantities of feed had been allocated to the livestock sector." This formulation strongly suggests the release of grain from state reserves for feeding.

** The government-operated meatpacking industry provides more than three-fifths of the country's total output.

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years, in part because of the failure of the regime to match the expansion of money incomes with an expansion of consumer goods and services. A continuation in 1970 of past trends of expenditure on food would boost demand for food by at least 4%. Most of this additional demand would be concentrated in high-quality foodstuffs, especially animal products, fruits, and vegetables. And because of shortfalls in the 1969 harvest, a decrease in the supply of fruit and vegetables can be anticipated in at least the first half of 1970, compared with the corresponding period in 1969.

Alleviating the Meat Supply Problem by Imports

10. As indicated above, there is little prospect for an improvement in domestic production of meat before the last half of 1970, if then. But the leadership has a strong incentive, occasioned by the Lenin Centennial in April, to alleviate at least partly the current shortages of meat. The Soviet consumer undoubtedly remembers the all-out effort by the regime in 1967, the fiftieth anniversary of the revolution, to give the ordinary citizen a better shake. In addition to a markedly improved supply of quality foods from domestic sources in 1967, imports (\$100 million) of Western-made clothing, footwear, and other soft goods were substantially increased.

11. Perhaps with this precedent in mind, the regime has recently taken steps to augment domestic supplies in the coming months by purchasing considerable quantities of meat.* Recent reports from major Free World exporters indicate that the Soviet Union may be currently purchasing considerable quantities of meat for delivery in the first half of 1970. Purchases of 65,000 tons (approximately \$50 million)

* Since 1966 the USSR has been a net exporter of meat, with selected client states -- principally East Germany, Czechoslovakia, and Cuba -- the main recipients. Except for a spurt in 1967, exports to Free World countries for hard currency have been negligible. In 1967 and 1968, Soviet meat imports were less than 60,000 tons, with nearly all imports originating from East European client states. Although data are not available for 1969, the evidence at hand suggests a further drop in net exports as the result of reduced exports to and decreased imports from the East European client states and Yugoslavia.

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[redacted] with additional purchases of 56,000 tons (approximately \$38 million) remaining unverified.* [redacted]

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[redacted] Finally, international meat circles report that Soviet and East European buyers continue to make inquiries for meat in Western Europe and Latin America. However, deliveries in the next several months from those sources may also be limited by refrigerated shipping capacity.

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13. The purchase of \$100 million worth of meat from the Free World (roughly 135,000 tons), if delivery could be made before 1 July, would allow a significant increase in the per capita supply -- by as much as 10% -- in large urban centers and selective increases in smaller cities or towns. Open signs of discontent resulting from shortages of meat would most likely, as in the past, be vented primarily in these centers -- say, in the 200 largest cities, where 72 million persons, or 30% of the Soviet population, reside. Indeed, recent press reports indicate that in a mid-December Central Committee Plenum, at which Brezhnev presented the principal report, the discussion concerning shortfalls in output of livestock products was focused on shortages in "large industrial centers."

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Conclusions

14. The forward momentum achieved in 1965-67 in raising the output of meat was lost in 1968 and 1969. Production during 1965-67 surged to a level nearly 20% above that in the last three years of Khrushchev's reign, when output had nearly stagnated. This rapid rate of advance was followed by a leveling off in 1968 and an estimated decline in output of 3% to 5% in 1969. Moreover, the downturn in domestic output led to a decline of 4% in per capita consumption of meat in 1969.

15. The absolute decline in meat consumption in 1969 came at the very time when Soviet consumers held high expectations that there would be a continued substitution of quality foods -- especially livestock products -- for a significant part of the traditional starchy staples (bread and potatoes). The failure to increase supplies of meat must be even more evident to the consumer, for the continued rise in personal money incomes in 1969 and in 1970 adds to the unsatisfied demand for meat already present. Evidence of the population's unsatisfied demand is manifested in (1) lengthening queues in state stores (where the relatively low retail prices are fixed) and rising prices in the collective farm market (where prices rise and fall according to demand and supply) and (2) an increase in the frequency of reports of complete absence of supplies of meat in selected urban centers.

16. There is little prospect for improvement in retail supplies of meat from domestic production before the third quarter of 1970, if then. The regime, however, has a strong incentive, occasioned by the Lenin Centennial in April, to alleviate at least partly the current shortages of meat. And, indeed, the government has recently taken steps to augment domestic supplies in the coming months by purchasing from abroad considerable quantities of meat. Most likely, the bulk of the imports will originate in Free World sources and will require hard-currency outlays. Within the last month or so the USSR reportedly has purchased 121,000 tons of meat (roughly \$88 million) from Free World suppliers. More purchases may be made in the coming months.

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17. In the past, open signs of discontent over the supplies of quality foods such as meat have been vented in one or more cities. The importation of \$100 million worth of meat (roughly 135,000 tons) in the first half of 1970 would permit a considerable boost in the retail supplies of meat to these urban centers.

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APPENDIX

Exaggeration in Soviet
Production Statistics for Meat

Western analysts generally have agreed that official Soviet production statistics for some of the major agricultural commodities contain considerable exaggeration. Although most publicity has been given to the inflation of statistics on grain, there is also evidence of exaggeration in output claims for meat, milk, and selected oilseeds.

In the case of meat, estimates reduce Soviet official production data (including fat and offal) by the percentages for 1950-68 given in the following tabulation:

<u>Year</u>	<u>Percent</u>	<u>Year</u>	<u>Percent</u>
1950-56	10	1960-61	15
1957	11	1962	14
1958	12	1963	16
1959	14	1964-68	12

These rates of discount represent notional allowances for assumed padding of official statistics. The step-up in discounts for 1957-63 reflects an allowance for the pressures of Khrushchev's campaign (initiated in 1957) for "catching up" with the United States in meat output. It is believed that pressures on reporting officials at various levels to fulfill unrealistic goals led to a greater-than-usual degree of falsification during 1957-63. In 1964-68, however, collateral evidence bearing on the validity of official claims of meat output did not suggest the need for either a varying rate of discount or as high a rate as for the latter years of the Khrushchev era.

The Central Statistical Administration (CSA), in its annual plan fulfillment announcement in January, claimed that the combined output of meat by the socialized and private sectors of the economy in 1969 was 11.6 million tons -- the same level of production claimed for 1968. Available evidence, however, supports a judgment that production of

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meat in 1969 actually declined somewhat. The same official announcement by the CSA also admitted to a 3% decline in the output of meat processed by government-operated meatpacking plants. Roughly 90% of industrially processed meat comes from animals supplied by the collective and state farms, with the balance provided by private agriculture. The industrially processed meat, in turn, constitutes nearly 90% of the total meat output of the socialized sector of the economy, some 10% being accounted for by slaughter and processing on state and collective farms. Changes in the output of the industrial meatpacking plants and in the total meat output of the socialized sector, therefore, are usually closely correlated. Hence, it is likely that the announced reduction in output of industrially processed meat implies a decline of comparable magnitude in the total meat output of the socialized sector (from 7.2 million tons in 1968 to 7.0 million tons in 1969).*

Accordingly, to reach the claimed total of 11.6 million tons of meat for the economy as a whole, the official measure of production of meat from the private sector would have had to increase by 4½%, from 4.4 million to 4.6 million tons. But, based upon the past relationship between the size of privately owned livestock herds and the production of meat by the private sector, such an increase does not appear likely. Concomitant with a reduction in the size of private holdings of livestock in 1967 and 1968 -- by roughly 5% per year -- official claims of meat output for the private sector remained at about the same level. Although official statistics are not available concerning the meat output of the private sector in 1969, there was a further reduction of 5% in overall inventories of animals held by individuals. Finally, a higher-than-usual rate of discount to official

* In addition, the CSA announcement indicated that retail sales in state stores declined by 4% in 1969. Although supplies for state stores depend for the most part on output from government meatpacking plants, they also reflect some additional procurements from both the socialized and private sectors by "decentralized" means. Nevertheless, changes in state retail sales from year to year are less reliable as indicators of changes in production because they can be affected by changes in levels of stocks and net imports.

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claims of meat production is also suggested by the admission by Brezhnev in a speech in late November to the Kolkhoz Congress that per capita consumption of meat in 1969 was 4% below that in 1968.

In summary, available indicators of meat output by the socialized sector and by the private sector imply a decline in total meat output, in contrast to the official claim that output in 1969 was maintained at the 1968 level. Given the above considerations, it is tentatively estimated that the appropriate rate of discount for deflating the official claim for meat output in 1969 should be 15% to 16%. This results in an estimated output of 9.7 million to 9.9 million tons, a drop of 3% to 5% below the estimated level of output in 1968.